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USDOC FOR ITA DAS KASOFF, MELCHER, SZYMANSKI, MAC/OCEA  
TREASURY FOR OASIA/INA -- DOHNER/HAARSAGER/WINSHIP  
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SUBJECT: SHANGHAI OFFICIALS SEEKING TO RESOLVE PROPERTY BUBBLE

REF: 09 SHANGHAI 492

11. (SBU) Summary: Shanghai housing officials say that the city is in the middle of a property market bubble. But rather than directly intervene to cool off the market, they instead are pushing to increase subsidized rentals for the poor and low-cost housing for low- and middle-income families. They hope this will reduce social tensions over rising property prices while showing responsiveness to Central Government edicts. End Summary.

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Shanghai Property Market in a "Bubble"  
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12. (SBU) The Shanghai real estate sector has already reached a "bubble" stage, and the Shanghai municipal government is looking into ways to cool it, Liu Haisheng, Deputy Director of the Shanghai Municipal Urban-Rural Development and Transportation Commission told Consul General Beatrice Camp and visiting EconMinCoun on January 19. He said the best evidence for this was that at the end of 2009, buyers were bidding higher prices for plots of undeveloped land than it would cost to purchase adjoining plots with finished housing. Shanghai Party Secretary Yu Zhengsheng has also described the property market situation as a bubble, said Liu. (Note: Yu has not been publicly quoted as saying "bubble," but he has been openly critical of the lack of affordable housing in recent weeks. Perhaps Liu is referring to internal comments made by Yu. End note.)

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Government Plans to Increase Affordable Housing  
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13. (SBU) The Central Government wants to avoid interfering too much in the housing market, said Liu, but has mandated each city to provide affordable housing and thereby avoid social unrest. Shanghai in 2008 set a goal of creating affordable housing for 10 percent of Shanghai households by 2012, said Liu. The housing will fall into two categories:

a) Low-rent housing (lian zu fang) for 120,000 households. These will be reserved for families with the lowest incomes -- the cutoff was originally RMB500 per month (approximately US\$70), but is being raised to RMB960 per month (approximately US\$140), said Liu. Under the program, the families need pay only 5 percent of their income on rent, and will be either placed in government-constructed housing or subsidized to live in existing housing. By yearend 2009, 62,000 units were either in the market or under construction, and due to limited supply there is a waiting list from which families are picked by lottery.

b) Economically appropriate housing (jingji shiyong fang) for 300,000 households. Households currently living in apartments less than 15 square meters, with monthly incomes of less than RMB2,300 (approximately US\$340), and assets less than RMB70,000 (approximately US\$10,250) are eligible to apply. Since land is expensive, said Liu, under this program new couples could expect to receive assistance for the purchase of a home of 40 to 60 square meters, for a subsidized cost of RMB250,000 to RMB350,000 (approximately US\$36,600 to US\$51,260). However, this program is moving forward slowly, as the method for income verification and other procedures is complicated, said Liu. At present, only two of Shanghai's 18 districts, are undergoing trials. The city hopes to expand this to all districts by year end, said Liu.

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Housing to be a Hot Topic at Shanghai's Lianghui  
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14. (SBU) Despite the Shanghai municipal government's resolve to increase affordable housing, Liu hinted at continuing controversy over how the plans should be implemented. He predicted that this would be a "hot topic" at the upcoming Two Meetings (lianghui), the Shanghai Municipal People's Congress and the Shanghai People's Political Consultative Congress. One area lacking consensus is how to keep housing prices down. Another is how to carry out the economically appropriate housing program -- some argue that the government should not intervene in the market, while others are pushing for the government to do more, said Liu.

15. (SBU) In advance of the national Two Meetings in March, Central Government leaders have also been interested in Shanghai's housing policies, said Liu. Liu briefed Premier Wen Jiabao on the subject when Wen was in Shanghai November 28-29, 2009, and President Hu Jintao also took note of these policies on his visit on January 15. (Note: For more on the quick steps Party Secretary Yu has taken to align Shanghai with national measures to cool the property sector, see reftel. End note.)

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Other Measures to Cool the Property Market  
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16. (SBU) In addition to increasing the amount of subsidized housing, Liu pointed to other measures Shanghai will emphasize in carrying out the so-called 11 Articles (shiyi tiao) on real estate controls recently issued by the State Council. (Note: According to Chinese media reports, the State Council General Office on January 10 issued a "Circular on Promoting Smooth and Healthy Development in the Real Estate Industry," which has 11 articles -- thus its shorthand name. End note.) For example, Liu cited the policy in the 11 Articles that banks should be encouraged to better differentiate between mortgage borrowers who will live in the house and those seeking to make an investment, implying fewer loans should extended to investors.

Liu also pointed to policy in the 11 Articles encouraging local governments to put more land on the market, saying Shanghai would do so in the hope of reducing land prices.

17. (SBU) Liu said that Shanghai officials are still considering the implications of the omission of the phrase "upgrading housing" from the encouraged housing promotion measures in the 11 Articles. Originally, housing purchase benefits covered both first-time house purchasers and households "upgrading" from subpar housing, which meant housing that was below the average size in a specific city, explained Liu. While the Central Government is now "recommending" in the circular that banks not extend loans for upgrades, said Liu, banks have their own motivation to write new mortgages, since they are competing for market share in this low-risk business. Therefore, said Liu, it is not clear what the impact of this change in language will be.

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Interested in Property Tax Policy

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18. (SBU) Liu expressed several times his interest in U.S. experience with property tax, and the Consul General referred him for further background to the Public Affairs Section's Information Resource Center. (Comment: Liu did not specify

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whether Chinese officials are pushing forward with plans for a property tax. However, speculation in the Chinese press has centered on the benefits of a property tax for decreasing property speculation, since it would increase the carrying costs of real estate investments. Liu's strong interest suggests the Shanghai municipal government, at least, is internally considering related policy options. End comment.)

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Chinese Demand For Housing Higher Than Western Models Predict

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19. (SBU) China's housing demand does not fit Western economic models, said Liu, and therefore he cautioned against comparisons with the U.S. real estate bubble. For one, Chinese families have always invested their wealth in housing, said Liu -- take rural areas, where farmers have built and rebuilt their houses since the Communist Revolution in 1949, with many now on their third reconstruction. Similarly, in cities, the value of homes in the rental market is much lower than for similar houses for sale, since Chinese families prefer owning a home. In addition, given inflation expectations, many families are buying homes now for their children's use in the future, said Liu.

110. (SBU) Shanghai's real estate sector, in turn, is different than elsewhere in China, said Liu. First, there is a greater foreign presence, with preliminary statistics showing that overseas buyers -- including those from Hong Kong -- accounting for 2 percent of housing purchases in 2009. In addition, there are more buyers from other provinces in China, estimated at 20 percent of purchases in 2009. Thus, nearly one-quarter of Shanghai housing demand comes from outside Shanghai.

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Comment

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111. (SBU) Consulate Shanghai's meeting with the local Urban-Rural Construction and Transportation Commission confirmed our earlier observations that the Shanghai leadership is moving quickly to defuse popular tensions over high housing prices (see reftel). However, the interests of the district and municipal-level governments in keeping land prices high and filling their own coffers -- by restricting the flow of land onto the market -- remain more aligned with local land developers, who are bidding high prices as they seek to increase their land reserves. Banks, too, seem likely to continue feeding the real estate boom through lending to real estate investors, since banks have so far seen almost no defaults on

mortgage repayments. As a result, Shanghai's policies may eventually provide more housing for low- and middle-income families, but by themselves will probably do little to deflate the property bubble.

¶12. (SBU) EconMinCoun has cleared on this cable.  
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